

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 TAR-01 AGR-05 L-02 H-02 /094 W

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R 181817Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0350

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

C O N F I D E N T I A L LONDON 05928

DEPARTMENT PASS TREASURY, FRB, AND EXPORT-IMPORT BANK

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: U.K. COST INFLATION SCHEME AND GUARANTEED LOANS  
FOR PRE-SHIPMENT FINANCE

REF: A) LONDON 2753 B) LONDON 5727

1. DURING INFORMAL CONVERSATION WITH ECGD OFFICIAL, WE  
QUESTIONED THE STATUS OF THE U.K. SCHEME ANNOUNCED LAST  
MONTH WHICH WOULD PROVIDE INSURANCE TO CAPITAL GOODS EX-  
PORTERS AGAINST COST INFLATION, AND THE APRIL 15 BUDGET  
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ANNOUNCEMENT THAT ECGD WOULD OFFER LOAN GUARANTEES FOR

PRE-SHIPMENT FINANCE ON LARGE EXPORT PROJECTS.

2. AS TO THE COST INFLATION COVERAGE SCHEME (REF A), ECGD OFFICIAL STATED PERSONALLY AND IN CONFIDENCE, "THE WHOLE THING IS A HAIRY MESS." EARLIER HE HAD CONFESSED THAT IT WAS THE OPINION OF ECGD THAT SUCH A SCHEME WOULD BE VERY DIFFICULT TO ADMINISTER. TO DATE, HOWEVER, ECGD HAS YET TO FORMALIZE THE OPERATIONAL DETAILS OF THE PROGRAM. WE JUDGE BY HIS COMMENT THAT THERE IS STILL A GREAT DEAL OF INTRA-DEPARTMENTAL DEBATE OVER THE OPERATIONAL PROCEDURES AND GUIDELINES.

3. REGARDING THE BUDGET ANNOUNCEMENT OF SCHEME TO FACILITATE AVAILABILITY OF WORKING CAPITAL FOR EXPORTS (PARA 3, REF B), I.E, ECGD PROVISION OF FACILITIES TO GUARANTEE LOANS FOR PRE-SHIPMENT FINANCE ON LARGE EXPORT PROJECTS, STATED IN PARLIAMENT THAT DETAILS WOULD BE FORTHCOMING IN A FEW DAYS. ACCORDING TO OUR SOURCE, DISCUSSIONS OF THE DETAILS OF THE PROGRAM ARE STILL IN THE VERY EARLY STAGES OF FORMULATION AND EVEN AN INITIAL ANNOUNCEMENT COVERING THE BASIC DETAILS WOULD NOT BE FORTHCOMING FOR SEVERAL WEEKS, NOT DAYS. THIS MUCH SAID, OFFICIAL STATED THAT ECGD DID NOT ENVISAGE THE VENTURE AS BEING MORE THAN A WIDENING OF CURRENT ECGD OPERATIONS. IT WOULD NOT BE IMPLEMENTATION OF A COMPLETELY NEW PROGRAM. (FYI: ECGD HAS HAD SUCH A PROGRAM IN OPERATION FOR ABOUT ONE YEAR. UNDER THE EXISTING PROGRAM, PRE-SHIPMENT FINANCING GUARANTEES HAVE BEEN AVAILABLE ALTHOUGH RIGID CONDITIONS OF ELIGIBILITY NARROWLY CONSTRICT ACCESSIBILITY.) OFFICIAL STRESSED IT WOULD NOT, REPEAT NOT, BE AT SUBSIDIZED RATES OF INTEREST. HE EXPLAINED THAT THE GUARANTEES WILL BE MADE AGAINST ECGD'S OWN JUDGMENT OF THE ABILITY OF THE EXPORTER TO REPAY HIS BASIC OBLIGATION. THE GUARANTEES WILL ONLY BE MADE WHEN THE EXPORTER'S COMMERCIAL BANK CANNOT HANDLE THE OPERATION ITSELF; POSSIBLY BECAUSE EXPORTER HAD REACHED HIS CREDIT LIMIT OR BECAUSE BANK WAS HIGHER OPINION OF SUCH ABILITY THAN THE BANK. IT IS VIEWED AS A TOPPING UP FACILITY RATHER THAN A SUBSTITUTE FOR NORMAL COMMERCIAL BANK LENDING AND RISK TAKING. IT IS NOT ECGD'S INTENTION THAT THE BANKS SHOULD CUT BACK

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THEIR OWN PRE-EXPORT FINANCING AS A RESULT OF THE NEW PROVISIONS.

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## Message Attributes

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**Disposition Date:** 28 MAY 2004  
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